

City and County of San Francisco

Office of the Controller · City Services Auditor

FINANCIAL AUDITS

• Audit Division
• Audit Report

PARKING AUTHORITY:

Improve Administration of the
North Beach and Vallejo Street Garages

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January 5, 2007





CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER CITY SERVICES AUDITOR

Ed Harrington
Controller
Monique Zmuda
Deputy Controller

January 5, 2007

Board of Directors
Municipal Transportation Agency
401 Van Ness Avenue, Room 334
San Francisco, CA 94102

President and Directors:

The Office of the Controller (Controller) presents its report concerning the concession audit of the North Beach and Vallejo Street garages (garages). Pacific Park Management, Inc. (Pacific) has a management agreement with the City and County of San Francisco to operate the garages.

Reporting Period: January 1, 2002, through December 31, 2004

Gross Revenues Reported: \$5,685,722

Results:

- Pacific did not properly account for all tickets it issued and, as a result, underreported and underpaid \$39,910 in revenues to the Parking Authority (Authority).
- Authority staff authorized Pacific to provide some free monthly parking at the garages without obtaining required approval from the Municipal Transportation Authority Board of Directors (MTA Board) or Board of Supervisors. Most of the free parking, valued at approximately \$1,540,000 for the audit period, was provided to San Francisco police officers, with an additional \$33,000 provided to Pacific management staff. MTA Board and Fire Department members also received free parking. In addition, the Authority incurred extra costs of approximately \$366,000 to provide the free parking to the police officers during the audit period, and could achieve savings of at least \$122,000 annually by implementing our recommendation to eliminate these costs.
- Pacific provided some free transient parking, with a value of at least \$67,950, outside the terms of the management agreement. As a result, Pacific did not collect all revenues owed to it, and therefore underpaid revenue to the Authority.
- Pacific did not fully comply with a number of management agreement requirements.

Due to the nature of the audit findings, we deferred issuing this report to conduct additional analysis and to permit the departments involved to formulate a comprehensive response. The responses from the Authority and Pacific are attached to this report. The Controller's City Services Auditor division will be working with the Authority to monitor the status of the recommendations made in the report.

Respectfully submitted,

Noriaki Hirasuna
Director of Financial Audits

FINANCIAL AUDITS

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INTRODUCTION

BACKGROUND

The City and County of San Francisco (City) entered a three-year management agreement (agreement), commencing January 1, 2002, with Pacific Park Management, Inc. (Pacific) to operate the North Beach and Vallejo Street garages (garages). The Parking Authority (Authority) oversees the management of the garages. The North Beach Garage is located at 735 Vallejo Street, and the Vallejo Street Garage is located at 766 Vallejo Street, almost directly across the street from each other.

The term of the agreement expired on December 31, 2004, but the agreement allows the term to be extended for two additional one-year periods by mutual agreement between Pacific and the Authority's director. Both parties agreed to exercise these options, and extended the term until December 31, 2006.

Pacific uses a computerized revenue control system that allows parkers to enter and exit the garages by using tickets or access cards. Transient parkers are issued a ticket on entry to the garages, and pay fees based on hourly or daily rates. Monthly parkers, however, pay fees based on monthly rates and are issued access cards to enter and exit the garages.

The agreement requires Pacific to report to the Authority all revenues collected from the operation of the garages, and to deposit the revenues into a City Treasurer approved bank account. The Authority pays Pacific a fixed monthly management fee of \$37,762. In addition, the Authority is to pay Pacific an incentive fee if it achieves specified target revenues and carpool patronage.

Pacific is responsible for paying the garages' operating expenses, which include all direct and indirect operating and routine maintenance and repair expenses, while the Authority is to reimburse Pacific for any proprietary expenses, including all capital expenditures, electricity bills, insurance and bond premiums, and expenses for any valet parking requested by the Authority. In addition, if the Authority requests Pacific to provide additional services which result in an increase in staffing levels above the staffing levels mandated by the agreement, then the Authority is to reimburse Pacific for the additional salaries and benefits costs, as well as a management fee equal to ten percent of the payments.

The agreement requires Pacific to have an annual audit of the garages' books and records by an independent certified public accountant (independent auditor), and to submit the audit report to

the Authority. Pacific submitted these audit reports for 2002, 2003, and 2004.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine if Pacific correctly reported and remitted all revenues collected from the operation of the garages to the Authority. Our review covered the period from January 1, 2002, through December 31, 2004.

To conduct the audit, we reviewed the applicable terms of the agreement. We assessed whether we should conduct a separate concession audit of Pacific's reported revenues by evaluating whether the audits performed by the independent auditor were adequate. In doing so, we reviewed the audit reports to determine whether the audits complied with the requirements specified in the agreement, and verified that the revenues reported to the Authority agreed with the revenues reported by the independent auditor. Further, we interviewed independent auditor staff and examined their audit workpapers.

We assessed whether the revenue control and collection procedures are adequate to ensure that Pacific has adequate controls over the collection of parking fees to prevent revenue losses due to errors or irregularities, and performed any additional test work we deemed necessary.

AUDIT RESULTS

PACIFIC COULD NOT ACCOUNT FOR ALL TICKETS IT ISSUED AND UNDERREPORTED AND UNDERPAID REVENUES

Pacific Park Management, Inc. did not include amounts for missing tickets in the revenues it reported to the Parking Authority, as required by the management agreement. As a result, Pacific underreported and underpaid revenues by \$39,910.

We reviewed the independent auditor reports Pacific submitted to the Authority for our three-year audit period, and found that the independent auditor reported that Pacific earned \$5,685,722 in revenues. Table 1 below shows Pacific's reported gross revenues.

TABLE 1

Pacific Park Management, Inc.
Reported Gross Revenues
January 1, 2002, through December 31, 2004

	Reported Gross Revenues
Vallejo Street Garage	
January 1, 2002, through December 31, 2002	<u>\$797,766</u>
January 1, 2003, through December 31, 2003	<u>875,809</u>
January 1, 2004, through December 31, 2004	<u>889,170</u>
Sub-total	<u>2,562,745</u>
North Beach Garage	
January 1, 2002, through December 31, 2002	<u>841,508</u>
January 1, 2003, through December 31, 2003	<u>1,101,496</u>
January 1, 2004, through December 31, 2004	<u>1,179,973</u>
Sub-total	<u>3,122,977</u>
Total	\$5,685,722

We verified that the revenues reported by Pacific agreed with the revenues reported by the independent auditor. However, the independent auditor noted that Pacific could not account for all tickets issued but the independent auditor found the number of missing tickets immaterial for reporting purposes because there were less than 100 missing tickets per month. However, we found this level of missing tickets was material for reporting purposes and conducted a further review of the missing tickets.

Pacific did not account for any tickets that had been issued but not collected on its daily revenue reports, which show the total number of tickets issued and collected daily. In addition, Pacific did not include the equivalent lost ticket charges in its gross

revenues, for tickets it did not account for. However, the agreement states that Pacific is responsible for collecting and accounting for all tickets. It also states that any ticket that is unaccounted for in the daily report shall be treated as a lost ticket and the lost ticket amount¹ per the agreement shall be considered collected by Pacific, and included in the gross revenues deposited for that day. According to the Pacific manager responsible for both garages, Pacific does not reconcile the number of tickets issued to the number collected on its daily reports.

Pacific underreported and underpaid \$39,910 for 1,401 missing tickets it could not account for.

We used Pacific's monthly ticket analysis reports to calculate the approximate number of tickets that were unaccounted for. On these reports, Pacific recorded the difference between total tickets issued and total tickets collected as missing tickets. Pacific calculated the number of missing tickets for each day and tallied a monthly total. For the audit period, there were 1,401 missing tickets but Pacific did not treat these tickets as lost tickets and did not include the lost ticket amount in the gross revenues deposited. As a result, Pacific underreported and underpaid its revenues by \$39,910.

THE PARKING AUTHORITY IMPROPERLY AUTHORIZED PACIFIC TO PROVIDE SOME FREE MONTHLY PARKING AT THE GARAGES

Parking Authority staff authorized Pacific to provide some free monthly parking at the garages without required approval. Authority staff improperly instructed Pacific to provide free monthly access cards to some officers of the San Francisco Police Department (Police Department) to park their personal vehicles while on duty, and to some members of the Municipal Transportation Agency (MTA) Board of Directors and MTA staff. In addition, Authority staff improperly authorized Pacific's provision of free parking to Pacific management staff and to companies performing work at the garages. The agreement contains no provision for allowing free parking, and the Authority did not amend the agreement to allow free parking. In addition, Authority staff confirmed that they did not obtain the approval of the MTA Board and Board of Supervisors for the free parking.

The Parking Authority Improperly Instructed Pacific to Provide Some Free Monthly Parking

Authority staff improperly instructed Pacific to provide various parkers with free monthly access cards, which allowed the holders free unlimited access to the garages. The majority of these access cards were issued to Police Department officers stationed at

¹ The lost ticket amount was \$27.50 from January 2002 through March 2003. The amount was increased to \$31.00 effective April 2003.

The Authority provided an estimated \$1.5 million in free parking for police officers without required approval.

Central Station², to be used when parking their personal vehicles when on duty³. Pacific issued an average of approximately 138 free monthly access cards to police officers for each of three sample months we tested, August 2002, March 2003, and December 2004. The total value of the free parking for these three months was \$128,300. If Pacific had provided free parking to police officers at the same rate for the entire 36 months of the audit period, we estimate that the value of the free monthly parking provided would have been approximately \$1,539,600. Pacific would have been required to pay this amount, if collected, in revenues to the Authority.

In addition, for our sample month of December 2004, Pacific issued three free access cards to members of the MTA Board and one to a former member of the Police Commission. Also, Pacific issued a free monthly pass to an Authority staff member for our sample months of March 2003 and December 2004. According to Pacific's area manager, the Authority instructed Pacific to issue free monthly access cards to these individuals. As of May 12, 2005, we found a total of 171 free monthly access cards issued, according to a list provided by the Authority. This list showed that the three MTA Board members discussed earlier were still in possession of their free access cards, that 160 free access cards were issued to San Francisco police officers stationed at Central Station, and that four free passes had been issued to the San Francisco Fire Department.

We found that Authority staff instructed Pacific to issue these free monthly access cards outside of the terms of the agreement, and outside of San Francisco Administrative Code (administrative code) and San Francisco Charter (charter) requirements. We asked the acting director of the Authority why the provision of free parking was not included in the terms of the agreement, and he stated that the Authority does not typically specify those provisions in any of their agreements because industry practices allow free parking. However, Chapter 17 of the administrative code requires that all such agreements include a schedule of permitted rates and charges.

According to the Authority staff member responsible for managing the agreement, when a free parking issue was raised in another audit, the Authority developed a written policy that would disallow the provision of free parking to police officers at the garages

² The Police Department's Central Station is located at 766 Vallejo Street, on the same block as the North Beach and Vallejo Street garages.

³ The Controller consulted with the Internal Revenue Service (IRS) to determine whether the value of free parking in cases like this should be added to employee earnings as a fringe benefit, and taxed as such. The Controller is currently working with City departments to ensure compliance with IRS guidance in this and other areas.

The Authority's acting director stated that the Authority has tried to implement a policy disallowing free police parking but has not been successful in collecting payment from the Police Department.

effective July 1, 2005. However, we found Pacific continued to provide the free monthly parking as of August 4, 2006, and the Authority's acting director explained that the Authority has tried to implement the policy but has not been successful in collecting payment from the Police Department. In addition, this free parking policy, which also allows free monthly parking for the MTA Board and its management staff with an official City business need to park at the garages, has not been properly approved. Any such policy should be approved by the MTA Board⁴ since Article VIIIA of the charter gives the MTA exclusive charge of the management and supervision of all property and assets of, as well as exclusive authority over contracting, leasing, and purchasing by, the Department of Parking and Traffic, which includes the Authority.

According to the Authority's acting director, there is no MTA Board resolution approving the policy⁵. We found that even if the policy had been approved by the MTA Board, this would not negate the requirement that the Board of Supervisors then approve the free parking either by approving an amendment to the agreement⁶, or by approving changes to the parking rates specified in the agreement, when requested to do so by the MTA Board⁷.

It was outside of the scope of our audit to quantify the revenues lost to the City caused by providing the free parking and whether these represented an illegal or inappropriate loss. We did, however, determine that the Authority may have unnecessarily incurred and paid substantial expenses in accommodating the police officers parking for free at the Vallejo Street Garage by keeping the garage open for more hours than mandated by the agreement.

As discussed in the Background section of this report, the garages are located across the street from each other and both are operated 24 hours a day. However, the agreement requires only

⁴ According to the Authority's acting director, the MTA Board commenced convening as the Parking Authority Commission, for matters related to governance of the Parking Authority, subsequent to the completion of this audit.

⁵ The MTA has had oversight responsibility for the Authority since July 2002. Prior to that time, this oversight was the responsibility of the Parking and Traffic Commission.

⁶ Charter Section 9.118 requires that the Board of Supervisors approve the modification of any contract which, when entered into, had anticipated revenues of one million dollars or more.

⁷ Chapter 17 of the administrative code requires that the Board of Supervisors approve, by resolution, the adjustment of rates fixed in the management agreement. It also states that parking rates are, at all times, subject to review and revision by the Board of Supervisors, but only after the MTA board has made a recommendation. According to the MTA's deputy city attorney, the MTA obtains Board of Supervisors' approval for parking rates in conjunction with the Board of Supervisors' approval of the MTA's annual budget.

the North Beach Garage to remain open 24 hours a day, but does not require the Vallejo Street Garage to remain open overnight. The agreement stipulates mandatory staffing levels for the required hours of operation, and states that if the Authority requires Pacific to perform any services that result in an increase of personnel above the specified staffing levels for the required hours of operations, then the Authority is to reimburse Pacific for the services, including all out-of-pocket expenses for salaries, payroll taxes or benefits, plus a ten percent management fee. According to an Authority principal administrative analyst, the Authority reimburses Pacific for staffing costs plus management fee for hours that the Vallejo Street Garage is staffed outside of the hours specified in the agreement. He also stated that the Vallejo Street Garage is kept open 24 hours a day to accommodate the police officers who receive the free parking while on duty.

We estimated that it costs the City approximately \$33 per hour for each hour of staffing not mandated by the agreement. Using this rate, we calculated the cost of staffing the Vallejo Street Garage with one attendant for the extra opening hours at \$121,936 per year, or \$365,808 for the audit period. The actual costs are higher than this amount since it does not include other expenses paid by the Authority, such as electricity costs, that are also incurred by keeping the garage open for the extra hours. We did not perform an analysis as to whether these costs are covered by extra revenues earned from keeping both garages open overnight. It may be possible, for example, that the North Beach Garage has the capacity to accommodate all paying customers overnight, as well as the police officers parking for free. The Authority did not perform such an analysis, but should have done so and presented the analysis to the MTA Board to seek their approval to incur the extra costs to keep the Vallejo Street Garage open to accommodate the police officers receiving free parking while at work.

The Parking Authority Improperly Allowed Pacific to Provide Other Free Monthly Parking

In addition to instructing Pacific to provide free monthly access cards to some parkers, Authority staff allowed Pacific to provide free monthly access cards to other parkers, thereby giving the card holders unlimited free access to the garages. For each of the three sample months we tested, Pacific issued free monthly access cards to three of its management staff; we subsequently determined that Pacific issued this free parking for the entire audit period, with a total value of \$33,300. Because the agreement does not allow Pacific to provide any free parking, this \$33,300 represents an underpayment of revenues to the City. In addition, Pacific issued a total of 6 free monthly access passes, also outside the terms of the agreement, to companies performing

The estimated cost of staffing the Vallejo Street Garage for the extra opening hours was \$365,808 for the three years of our review.

The Authority did not obtain approval from the MTA Board and Board of Supervisors for its free parking policy.

construction work at the garages during the three sample months we tested.

According to Pacific's area manager, the Authority authorized Pacific to provide free monthly parking to its management staff and to companies performing work at the garages. This was confirmed by the acting director of the Authority. The Authority's free parking policy, provided to us by the acting director, allows free monthly parking for garage management staff and its essential operations vendors who have a garage business need to park at the garages, effective July 1, 2005. However, as previously discussed, the Authority did not gain the proper approval of the MTA Board and Board of Supervisors to allow this free parking.

PACIFIC IMPROPERLY PROVIDED SOME FREE TRANSIENT PARKING OUTSIDE THE TERMS OF THE MANAGEMENT AGREEMENT

In addition to improperly providing free monthly parking, Pacific improperly provided some free transient parking because it did not charge some transient parkers for their use of the garages as required by the agreement. As a result, Pacific underreported and underpaid revenues to the Authority.

For 9 sample days we tested, we found a total of 300 no-charge tickets collected by Pacific. Of this 300, 86 were instances in which Pacific did not charge transient users of the garages a parking fee, as required by the agreement. Table 2 below shows the categories of individuals to whom Pacific improperly provided free transient parking.

TABLE 2

Tickets Improperly Issued at No Charge by Pacific For The Nine Sample Days Tested

Categories of Individuals That Improperly Received Free Tickets	Number of Free Tickets	Average number per day
Pacific Employees	58	6.44
Police Department	23	2.56
Vendors	5	.56
Total	86	9.56

The agreement requires Pacific to charge and collect the transient parking rate from all transient users of the garage, and it does not allow any free transient parking. Further, the MTA Board or Board of Supervisors did not approve any free parking in subsequent revisions to the rates specified in the agreement. For the 9 sample days we tested, Pacific provided free transient parking to the following:

The agreement did not allow the \$67,000 in free transient parking provided by Pacific to its employees.

- **Pacific Employees:** We found a total of 58 no-charge employee tickets for both garages. According to the garages' manager, these tickets were issued to Pacific employees who are allowed to park for free at the garages while at work. There is one employee on duty for each garage for each of the three daily shifts. While we found that the number of tickets appeared consistent with the stated reasons for providing them, the agreement does not allow Pacific to provide this free parking, and the City is under no obligation to provide free parking for garage staff. We found that the value of the free parking provided for one staff member, for each of the three daily shifts at both garages during the three years of the audit period, was \$67,950.
- **Police Department:** Of the total no-charge tickets, 23 were marked by Pacific as having been used by police officers. According to the Pacific area manager, this free parking was provided to individuals who stated that they were police officers who had forgotten their free monthly access card. Not only was this free parking provided outside of the terms of the agreement, but the controls for this parking are not sufficient to prevent abuse. According to the manager of the garages, Pacific staff asks the individuals claiming to be police officers to sign the ticket and write their badge number on the ticket, but we found the signatures and badge numbers were illegible on the majority of the tickets we examined. There was no way, therefore, to verify that these individuals were indeed police officers and that they had received a free monthly pass. For example, one officer apparently left his/her parked car in the garage for almost 2 months. The officer's name and badge number were not written legibly on this ticket.

When we asked the Authority about this issue, they provided us with a letter from Pacific to the Central Station command staff that outlined required procedures in the event that an officer forgets his or her monthly access card. In such situations, the officer is supposed to pay the parking fee and get reimbursement later, having obtained supervisory certification that they were at work and upon confirmation that the access card has not been used simultaneously. The letter also clearly states that officers are not authorized to sign their parking tickets at any time. According to Pacific management staff, they feel that they cannot deny free parking to police officers who have forgotten their access cards.
- **Vendors:** Five of the total no-charge tickets were issued to various companies. According to the manager of the garages, these tickets were for vendors performing work at the garage for Pacific or parking patrons.

Pacific issued this free transient parking outside of the terms of the agreement, and without the necessary approval of the MTA Board and Board of Supervisors. As a result, Pacific did not collect all revenues owed to it, and has therefore underpaid revenue to the Authority. According to the acting director of the Authority, the Authority allows Pacific to provide free transient parking to vendors, such as the parking equipment vendor, and those performing repairs or providing services to the garage. However, the agreement requires Pacific to charge and collect specified parking fees from all users of the garage.

PACIFIC DID NOT FULLY COMPLY WITH MANAGEMENT AGREEMENT REQUIREMENTS

Pacific has not complied with a number of management agreement requirements. Pacific failed to properly retain all its records as required by the agreement. In addition, the audits completed by Pacific's independent auditor for each year of the audit period did not include a review of proprietary expenses, as required by the agreement. Finally, Pacific did not always process its monthly revenues through its revenue control system, as sound business practice would dictate.

Pacific Did Not Fully Comply With Record Retention Requirements

Pacific did not retain all records through the expiration of the agreement as required under its agreement with the Authority. Pacific was unable to provide us with any of the overnight logs, in which it records details of overnight parkers in the garages, for the audit period. According to Pacific's area manager, Pacific retains these logs for only a month. The agreement requires Pacific to obtain written consent from the director of the Authority and Controller before destroying any records.

The Independent Auditor Did Not Review Proprietary Expenses

The independent auditor engaged by Pacific did not perform all the audit work required by the management agreement. Although the independent auditor stated, in the scope section of the 2002 and 2003 audit reports, that it performed further review and sample testing of contract compliance of proprietary expense reimbursements, this was not the case. On review of the workpapers documenting the independent auditor's work for 2002, 2003, and 2004, we found that the independent auditor did not perform any steps to review the validity and reasonableness of the proprietary expenses paid by the Authority to Pacific. In addition, the partner responsible for overseeing the audit work stated that they did not conduct any review or testing of proprietary expenses. The agreement requires Pacific to bear the cost of this work

The independent auditor did not perform required reviews of \$748,225 in expenses reimbursed by the Authority to Pacific.

through the required annual independent audits. Since the Authority reimbursed a significant amount of proprietary expenses, \$748,225, to Pacific for the audit period, we consider the performance of this audit work to be a critical step.

Pacific Did Not Process All Monthly Parking Revenues Through the Revenue Control System

Pacific did not use its revenue control system to collect all monthly parking fees during the audit period. According to Pacific's area manager, the system had been broken since approximately October 2004, and Pacific had been unable to have its system vendor, DataPark, repair the problem. Pacific attendants collected the monthly parker fees and Pacific accounting staff entered the amounts manually into Pacific's accounting system. It is important that all revenues be processed through the revenue control system, since this helps ensure that no receipts are excluded from amounts reported to the Authority.

RECOMMENDATIONS

To ensure that the Parking Authority properly administers the management agreement for the North Beach and Vallejo Street garages, its staff should take the following actions:

- Bill and collect from Pacific the \$39,910 in underpaid revenues resulting from the 1,401 missing tickets that Pacific issued but could not account for during the audit period. The Authority should also determine if Pacific similarly underpaid revenues for any prior or subsequent periods and, if so, bill and collect any such underpaid amounts. In addition, the Authority should determine if the agreement requires it to collect any late fees, and should collect these, as applicable.
- In instances where providing free or reduced price parking is considered consistent with City policy, gain proper approval from the MTA Board of Directors and Board of Supervisors for any such policy immediately. The Authority should also ensure that proper controls are in place to properly manage, and prevent abuse of, this parking. If such a policy is not approved, then the Authority should instruct Pacific to cease any actions undertaken outside of agreement terms, including the provision of free transient and monthly parking.
- Consider keeping only the North Beach Street Garage open overnight, as mandated by the agreement, in order to achieve cost savings of at least \$122,000 annually. In the future, obtain approval from the MTA Board of Directors before incurring any extra costs associated with providing free or reduced price parking.

- If necessary, amend the terms of its management agreement with Pacific to be consistent with any new free or reduced price parking policy, and seek the approval of the Board of Supervisors for any such amendments, as required by the San Francisco Charter.
- Inform Pacific that it is required to collect all revenues in accordance with the terms of the management agreement.
- Bill and collect from Pacific the \$67,950 in underpaid revenues that resulted from Pacific improperly providing free transient parking to its employees at the garages during the audit period, as well as any late fees required by the agreement. The Authority should also determine if Pacific similarly underpaid revenues for any prior or subsequent periods and, if so, bill and collect any such underpaid amounts.
- Calculate the amount of any other underpaid revenues that resulted from Pacific's provision of other free parking outside of the terms of the management agreement and without the authorization of the Parking Authority, for example, for the free transient parking provided to police officers. The Authority should calculate any such underpayments during the audit period and for any prior and subsequent periods and, if applicable, bill and collect the underpaid amounts. The Authority should then bill and collect any underpaid amounts from Pacific, as well as any late fees required by the agreement.
- Require Pacific to fully comply with all terms of its management agreement including those relating to record retention, independent audit requirements and processing all revenues, including monthly revenues, through its revenue control system. In particular, the Authority should require Pacific to instruct its independent auditor to review the validity, reasonableness, and contract compliance of the \$748,225 in proprietary expenses that the Authority reimbursed to Pacific for the period from January 1, 2002, through December 31, 2004, as well as for any subsequent periods.
- Require Pacific to use a different Certified Public Accountant to conduct the audits required by the contract. If necessary, consult with the Office of the Controller to identify other suitable CPA firms.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

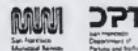
Staff: Robert Tarsia, Financial Audit Manager
Kathy Buckley

PARKING AUTHORITY RESPONSE TO THE AUDIT:



Municipal Transportation Agency

Gavin Newsom | Mayor
Hon. Dr. Jennifer Tolson, Jr. | Chairman
Michael Kasuda | Vice Chairman
Shelley Breyer Blase | Director
WJ Doty | Director
Peter H. Johnson | Director
Tom Hoban | Director
Leah Shulman | Director
Nathaniel P. Ford, Sr. | Executive Director/CEO



MEMORANDUM

Date: December 19, 2006

To: Noiraki Hirasuna, Director of Financial Audits
Office of the Controller – City Services Auditor

From: Ronald Szeto, Acting Director *RS*
Parking Authority

Re: North Beach Garage and Vallejo Street Garage Audit Response

The purpose of this memorandum is to provide the Controller's Audits Division with a response to the North Beach Garage and Vallejo Street Garage audit period from January 1, 2002 through December 31, 2004.

1. Bill and collect from Pacific the \$39,910 in underpaid revenues resulting from 1,401 missing tickets that was issued but not accounted for during the audit period. The Authority should also determine if the agreement requires it to collect any late fees, and should collect these, as applicable.

Response: I concur with the audit recommendation and will evaluate if late fees are appropriate and applicable.

2. In instances where free or reduced price parking is considered consistent with City policy, gain proper approval from the MTA Board of Directors and the Board of Supervisors for any such policy immediately. If such a policy is not approved, then the Authority should instruct Pacific to cease any actions undertaken outside of agreement terms, including the provision of free transient and monthly parking. The Authority should also ensure that proper controls are in place to properly manage, and prevent abuse of, this parking.

Response: On July 21, 2004, I developed a staff policy to address free or reduce price parking as a result of a previous audit conducted by the Office of the Controller. The policy states that all city department and other agencies receiving free monthly parking will begin paying the full, posted rate beginning July 1, 2005. Although we successfully implemented the policy at

most of our other parking facilities, I did not succeed for this contract. As a result of this audit, we met with the Police Department to address this finding. The Police Department agreed to pay for its parking and in exchange, we agreed to pay for services that they are currently provided to us without charge. Since the services are comparable in value, we agreed to budget funds for these services in both of our FY 07-08 budgets and commence payment in July, 2007-retroactive December, 2006. The significance of starting the billing for these services in December is that it will give us the opportunity to relocate the Police Department parking from Vallejo Street Garage to the North Beach Garage immediately (satisfying the tax-exempt bond requirement). Therefore, we could reduce expenses by closing the Vallejo Street Garage in the evenings and early morning hours as originally planned.

That being said, I concur with the audit recommendation that, at this time, we need a MTA/Parking Authority Commission policy on free parking for all aspects of parking, including garage personnel, garage supervision and city representatives conducting official city business. I plan to recommend a policy for MTA/Parking Authority Commission adoption in March, 2007.

3. In instances where free or reduced price parking is considered consistent with city policy, gain proper approval from the MTA Board of Directors before incurring any extra costs associated with providing free or reduced rate parking.

Response: I concur with the audit recommendation and as a result of the audit we have already taken steps to reduce our expenses. At our request, the Police Department has agreed and will direct their officers to utilize the North Beach Garage, thus allowing us to close the Vallejo Street Garage during the evening and early morning periods, commencing December 21, 2006.

4. If necessary, amend the terms of its management agreement with Pacific to be consistent with any new free or reduced rate parking policy, and seek the approval of the Board of Supervisors for any such amendments, as required by the San Francisco Charter.

Response: I concur with the audit recommendation. The management agreement will expire soon and we are preparing new bid documents. Since the time it takes to bid a new agreement is about the same as the time it takes to amend the existing contract, I do not plan to amend the contract, but rather incorporate language in the new agreement to require the management firm to pay its employees' parking fees.

5. Inform Pacific that it is required to collect all revenues in accordance with the terms of the management agreement.

Response: I concur with the audit recommendation.

6. Bill and collect from Pacific the \$67,950 in underpaid revenues that resulted from Pacific improperly providing free transient parking to its employees at the garages during the audit period, as well as any late fees required by the agreement. Also calculate and collect any underpaid amounts subsequent to the audit periods.

Response: The parking industry practices allow for free employee parking. In addition,

Pacific has not shown a willful disregard of non-compliance with the management agreement by providing free parking to their employees. Therefore, I do not intend to charge Pacific for such cost. However, all future contracts will explicitly address this audit recommendation. In our most recent contract for another parking facility, we have already incorporated language to require the management firm to pay for its employees' parking fees. As stated in my response to recommendation 4, we will also incorporate new language for the new agreement for these garages.

7. Calculate the amount of any underpaid revenues that resulted from Pacific's provision of other free parking outside of the terms of the management agreement and without the authorization of the Parking Authority, for example, for the free transient parking provided to the police during the audit period. The authority should then bill and collect any underpaid amounts from Pacific, as well as any late fees required by the agreement.

Response: I concur with the audit recommendation.

8. Require Pacific to fully comply with all terms of its management agreement including those relating to records retention, independent audit requirements and processing all revenue, including monthly revenues, through its revenue control system. In particular, the authority should require Pacific to instruct its independent auditor to review the validity, reasonableness, and contract compliance of the \$748,225 in proprietary expenses that the authority reimbursed to Pacific from the period from January 1, 2002 through December 31, 2004.

Response: I concur with the audit recommendation.

9. Require Pacific to use a different Certified Public Accountant to conduct the audits required by the contract. If necessary, consult with the Office of the Controller to identify other suitable CPA firms.

Response: I concur with the audit recommendation.

PACIFIC PARK MANAGEMENT, INC.

RESPONSE TO THE AUDIT:



December 26, 2006

Mr. Noiraki Kirasuna
Director of Financial Audits
Office of the Controller
City Hall – 1 Dr. Carlton B. Goodlett Place
Room 476
San Francisco, CA 94102

RE: North Beach & Vallejo Street Garage Audit Response

We have reviewed the audit and are writing to respond to issues raised in said audit. Thank you for the opportunity to shed light on some important issues.

Issue #1 – Underpaid revenues resulting from missing tickets.

Response to Issue #1 – In the audit report findings, there are "missing tickets" that were not accounted for. To clarify, the tickets were not all missing; rather it is a discrepancy as to whether or not appropriate revenue had been collected for all tickets. There are two primary reasons tickets are missing, according to the auditor. We shall also address a third.

The first reason for missing tickets is the usage by police personnel who have stated their authority not to be charged for parking privileges. The Parking Authority granted this authority to them, and this fact is documented in both the audit report and subsequent response by the Parking Authority to the audit. Therefore, we have fulfilled our duty by adhering to these requests from both parties.

The second reason is provision of parking for employees while on duty. This practice is normative in the industry, and is followed by every operator in the city, for both public and private locations. Further, the Parking Authority in its audit response concurred with this position and states "Pacific has not shown a willful disregard of non-compliance with the management agreement by providing free parking to their employees". It should also be noted that our collective bargaining agreement with Teamsters Local 665, signed along with all other management companies in the city, asks us to provide free parking for employees.

Thirdly, the DataPark revenue control equipment is a poorly functioning system, with limited capabilities, and an extremely high service call ratio. Some of the issues as it relates to missing tickets are as follows:

- * Ticket dispenser issues multiple tickets, in some cases three to four tickets at a time.
- * Ticket dispenser fails to issue ticket, which then entails manual ticket issuance, creating a loophole for inappropriate ticket accounting.
- * Data Park service personnel issue test tickets without notifying the cashier that leads to improper ticket accounting.
- * Ticket dispenser gets jammed.
- * Ticket dispenser improperly cuts the ticket into half or in three pieces.
- * Revenue control system will be down for a period of time.

All of these factors contribute to problems with tickets. Many other operators in the parking industry share these experiences.

Issue #2 – Immateriality of negligible missing ticket amounts.

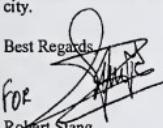
Response to issue #2 – In response to the auditor's inquiry about lack of full reconciliation for all tickets; our Certified Public Accountant responded to the inquiry and conveyed that for negligible amounts of tickets they did not provide a full accounting. This is consistent with industry standards that there is an allowance for destroyed tickets etc. The CPA used applied this standard, as they apply in other industries, without consulting our management contract with the city. We are working with the CPA to make adjustments in their practices to align their procedures with the Parking Authority Contract.

Issue #3 – Records retention

Response to issue #3 – going forward, we will ensure proper record retention is kept at the location. Since there is little in the way of storage at the North Beach / Vallejo location, we often times move these records to a central location. We will make sure they are available.

Thank you for the opportunity to clarify these matters. It is our intent to work with the City to continually improve our service, and adjust our practices to meet the recommendations of the city.

Best Regards,


for
Robert Stang

President

CC: Behailu Mekbib & Sam Tadesse, Pacific Park Management

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cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library

